



The Law Society of
Upper Canada

Barreau
du Haut-Canada

Annual Report

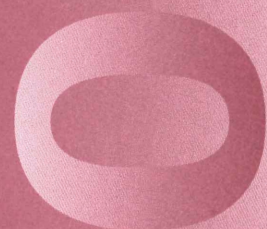
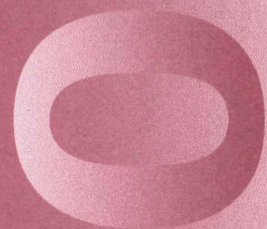
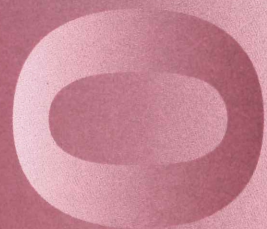
The Law Society of

Upper Canada

exists to govern

the legal profession

in the public interest



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Ce document est aussi disponible en français.



THE LAW SOCIETY OF UPPER CANADA

Formed on July 17, 1797, and incorporated in 1822, the Law Society of Upper Canada is the organization responsible for governing Ontario's legal profession in the public interest. The Law Society educates, admits and regulates the province's lawyers.

The Law Society's affairs are governed by directors known as benchers – most of whom are lawyers elected by the profession and some of whom are non-lawyers appointed by the provincial government.

THE ROLE STATEMENT OF THE LAW SOCIETY OF UPPER CANADA

The Law Society of Upper Canada exists to govern the
legal profession in the public interest by:

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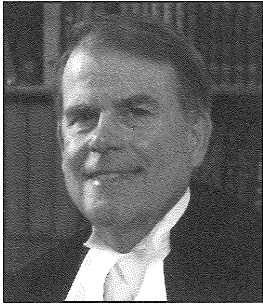
ensuring that the people of Ontario are served by
lawyers who meet high standards of learning, competence
and professional conduct; and

.....

upholding the independence,
integrity and honour of the legal profession;

.....

for the purpose of advancing the cause of justice
and the rule of law.



The year 2000 was a year of much activity and accomplishment at the Law Society. The benchers and I continued to have at the top of our agenda the preservation and promotion of high standards of professionalism and competence. The Professional Development and Competence Committee and Law Society staff worked tirelessly to develop the basic principles which will enable us to design a competence model which will serve the public and the profession. Not surprisingly the emphasis of the Committee's report, now approved by Convocation, is that the primary responsibility for maintaining and enhancing competence and professionalism rests with each lawyer. During the course of the next few months we will be designing the specifics of such a model.

In September 2000, Convocation approved the establishment of the Chief Justice of Ontario's Advisory Committee on Professionalism. This is a cooperative venture of the judiciary, the Law Society of Upper Canada and Ontario law schools to maintain and encourage those aspects of the practice of law that make it a learned and proud profession. The Committee's aim is to encourage professional civility, and a spirit of community and collegiality in the legal profession. The Committee will act as a steering committee and clearing house to generate ideas and to make recommendations to other organizations and individuals within the legal profession and community about initiatives to enhance professionalism.

The membership of the above Committee includes the Chief Justice of Ontario, the Chief Justice of the Superior Court of Justice, the Chief Justice of the Ontario Court of Justice, representation from the Ontario law schools, the Treasurer of the Law Society, a lay bencher of the Law Society and a number of lawyers across the province who are appointed by the Law Society. The Committee has had its first meeting and we are hopeful that it will play a leading role in helping us to address the many issues related to professionalism.

Our symposium, *Tradition and Tomorrow, A Celebration of the Legal Profession*, was a major event in the year 2000. It signalled to the profession and to the public our continuing commitment to govern the profession in the public interest and to find solutions for new problems that face us as we make our way in the global village. We were treated to a series of lectures and presentations which were exciting, challenging and informative. Indeed, they will serve to inform Convocation as we debate the course of the Law Society over the next 3 to 5 years.

We completed our strategic planning process in the past year. Convocation adopted a strategic plan which states clearly that the Law Society must focus on our core functions. There is a consensus that the Law Society needs to do fewer things better. We have identified our complaints, investigation and discipline processes as areas for improvement. In this regard we appointed the Honourable W. David Griffiths, Q.C., LL.D., to review our investigation and discipline procedures. Mr. Griffiths recommended a number of areas for improvement including a need to increase our staff in both the investigation and discipline areas. Mr. Griffiths' recommendations have been implemented and we expect over the course of this year to see considerable improvement in reducing the backlog of discipline cases.

I was pleased to meet on a regular basis with the Deans of the six law schools in Ontario. In my view it is important that the law schools and the Law Society maintain a regular dialogue with each other. We were able to share a number of matters of mutual concern including a lively exchange on the teaching of professional responsibility. I received the assurance of the Deans that they view professional responsibility as an important component of the law school curriculum. We are presently engaged in a discussion of the best way to approach the subject, whether by way of a free standing course or as part of the teaching of individual courses such as family law and criminal law.

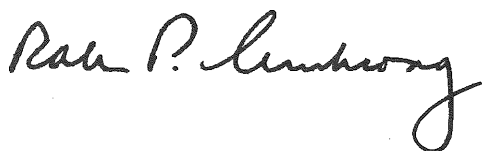
Our Court House Task Force completed its work in 2000 and its report was approved by Convocation in March 2001. The report is the first in depth review and analysis of court house facilities across the province. Although the range of problems around the province is diverse there are certain common issues. Court house security is a major issue. Many of our court houses were built at a time when there obviously were no significant concerns about security. It was probably enough to have the presence of a police constable in the court house to ensure that the administration of justice ran smoothly and without untoward incident. Unfortunately, the reality today is different and there are legitimate concerns about the safety of the public, clients, judges and lawyers which must be addressed. Adequate space in the court houses is also a common problem. The growing population of Ontario has placed great pressure on our court facilities. It is clear that there are not enough courtrooms. In many court houses there are no witness interview rooms and no robing rooms for lawyers (particularly for women). Often the court house library is employed for a variety of uses, including as a holding cell for persons in custody.

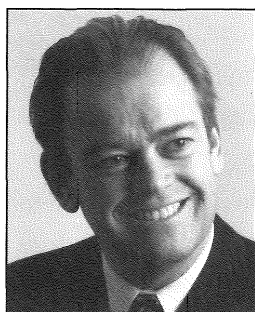
We are hopeful that the Court House Task Force Report will serve to enable the Attorney General to convince his government colleagues that action needs to be taken to rectify these problems. The Law Society intends to work collaboratively with the government and the other stakeholders in the justice system to find solutions to these issues.

During the past year I continued my visits to the county and district towns and cities outside of Toronto. I found these visits to be invaluable in keeping me abreast of the concerns of the public and the bar around the province and in enabling me to better carry out my duties as Treasurer in an informed fashion. By the time I leave the Office of Treasurer in June I hope to have visited every one of the 47 counties and districts within the province.

One of the messages which I have taken from my visits concerns the desire to have more continuing legal education outside of Toronto. To this end we are again this Spring providing a CLE program in each of the eight regions of the province specially designed for the interests of the local bar.

In summary, I believe that 2000 was a good year for the legal profession and the Law Society. We are already into the year 2001 and I am confident that we are on the right track in carrying out our mandate to govern the profession in the public interest and, at the same time, upholding the independence, integrity and honour of the legal profession.

A handwritten signature in cursive script, reading "Ravi P. Limbong". The signature is written in dark ink and is positioned in the lower-left quadrant of the page.



My responsibilities at the Law Society commenced on January 25th, 2001. Fortunately I am no stranger to Convocation and the operations of the Law Society. As the President of the Lawyers' Professional Indemnity Company (LPIC) for the last six years, I developed an appreciation of the important role played by the Law Society in governing the legal profession and maintaining its independence, integrity and competence.

In fulfilling my mandate as Chief Executive Officer, I am most conscious of the need for the Law Society to deliver on its core mandate as efficiently and effectively as possible. The restructuring of the Law Society has put in place some of the infrastructure needed to help us to better meet member and public needs. However, there is still much work to be done to improve how the Law Society delivers its basic services.

Here are just a few highlights of the improvements that were achieved in 2000 – thanks in large part to the dedicated staff at the Law Society:

- The Client Service Centre, launched in July 1999, had its first full year of operation in 2000, a year in which staff handled over 500,000 calls, letters, e-mails, faxes and in-person inquiries. New call centre software, installed early in 2000, combined with a cross-training initiative for staff, enabled the provision of responsive and rapid service to members of the public and the membership.
- The Lawyer Referral Service was redesigned and a “1-900” service implemented. This has resulted in a more responsive program for both the public and the lawyers involved. By year-end, nearly 2,000 lawyers were members of this service.
- Advisory and Compliance Services assisted approximately 6,000 lawyers calling for advice on practice management, the Rules of Professional Conduct and client relations. Staff played a key role in communicating to members the changes to the Rules of Professional Conduct, which came into effect in November, 2000.
- The implementation of alternate dispute resolution strategies in the complaints process has been of assistance to both members and complainants. Resolution and Compliance staff informally helped resolve about 700 complaints between members and their clients.
- Changes to staffing levels in the Investigations department, which occurred following the recommendation of the Honourable W. David Griffiths, Q.C., LL.D., in his report on the Law

Society regulatory process, are beginning to have an impact. There are now a total of six investigations teams in place as of year-end, with a fully bilingual team based in Ottawa. Caseloads are down over the previous year.

- The Law Society earned national recognition for its promotion of equity and diversity in the legal profession with a nomination for the Canadian Race Relations Foundation's Award of Excellence, and received a three-year \$150,000 funding grant from the Maytree Foundation to support equity-related mentoring and public education programs.
- The Law Society increased access to the Bar Admission Course for students across the province by making use of technology, such as webcasting, and by offering courses in all five Ontario cities that have law schools.
- The Law Society began the process of making better use of technology to communicate with members, and to improve their access to Law Society and other legal information, news and resources, and to each other:
 - The Law Society entered into a joint venture with Teranet and LPIC to provide Ontario's lawyers with a new technology-based tool that offers improved communication, information flow and educational opportunities. BAR-eX offers web-based services for lawyers, including: secure communication, up-to-date legal news, educational opportunities, purchasing, access to government services, a legal specific search engine, web mail, discussion forums and a career centre. BAR-eX now has close to 4,000 registrants and attracts over 2,500 users each week with more than 40,000 page views - and these numbers are growing.
 - Canadian Legal Information Institute (CanLII), the virtual law library was launched in 2000. The Law Society is a leading participant in this joint initiative with Canada's other legal regulators through the Federation of Law Societies. This initiative will provide free legal information from the courts, government and others to both lawyers and the public.
- The delivery of library services has been reorganized. As a result of several years of discussions with the County and District Law Presidents' Association, LibraryCo. Inc. has been established as the administrator of county library services. This will enable the delivery of more effective library services, available to all members, across the Province.

There is still considerable work to be done at the Law Society to improve our effective use of technology. Resources will be focused on upgrading our internal technology infrastructure so that we can perform our mandated functions as regulator of the legal profession. Improvements to our web site are underway to ensure timely access by the public and members to information and



services provided by the Law Society. We will enhance our ability to deliver education electronically both as part of our continuing education and our Bar Admission Course mandate. Finally, we intend to continue our support of joint venture initiatives such as Bar-eX and CanLII.

This shift to information access and communication through technology is really a reflection of the times. When we start looking at various government initiatives, such as electronic registration, the integrated justice project, or e-Laws – we realize that many government initiatives that deal with information are starting to move to an electronic environment. And, in essence, lawyers are in the information business. If we don't move into the electronic or digital world, we risk being left behind. As the regulator of the legal profession, the Law Society has an obligation to assist and to promote the use of technology by lawyers, and as well, to use technology ourselves in the delivery of services.

Further initiatives are also underway to rationalize the procedures and activities of the departments involved with the complaints and discipline process. The report of the Honourable W. David Griffiths, Q.C., LL.D., in September of 2000, highlighted the need for numerous changes in this important area of operations. We are implementing his recommendations to eliminate unreasonable delays and to achieve improvements to the way matters are handled.

The Law Society is also engaged in the implementation of its expanded competence mandate. The approach will address the Law Society's obligation to govern the profession in the public interest and, as well, support members in their commitment to competence, and quality service. Its efforts will involve promoting, facilitating and developing educational, diagnostic and other tools and guidelines that inform professional development.

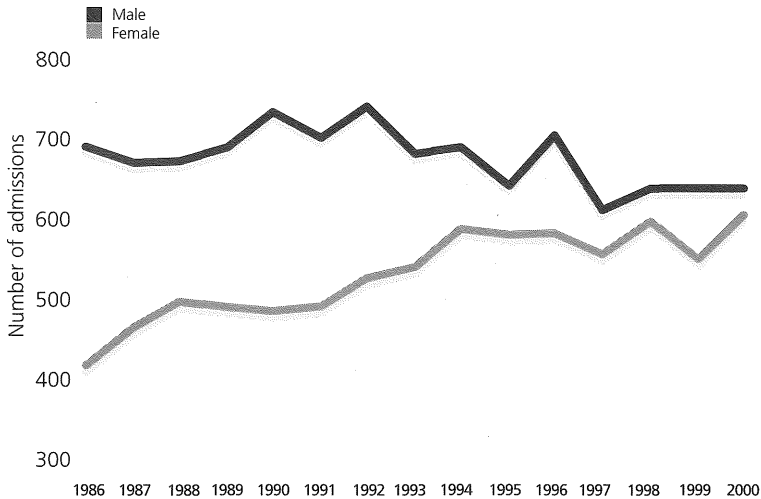
I am excited about the many opportunities presented by my new position. I am also cognisant of its many challenges given the breadth of functions and services performed by the Law Society. There is rightfully pressure to reduce the financial impact of the Law Society's cost of operations. However, it's the breadth and array of initiatives and services that pose the inherent challenge to reducing costs in a meaningful way. The review of these initiatives for effectiveness and efficiency and the role of the Law Society in providing them will ultimately be the real challenge. I look forward to assisting Convocation in carrying out its important mandate to govern the legal profession.

STATISTICS AT A GLANCE

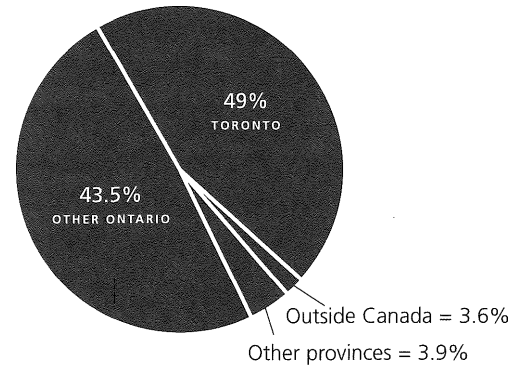
Membership Statistics

The information presented here is based on Law Society data at December 31, 2000

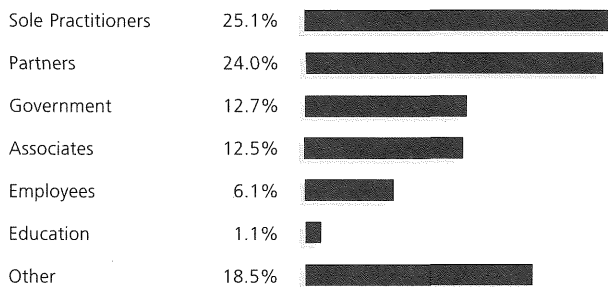
Admissions (by sex, 1986-2000)



Geographical distribution of members

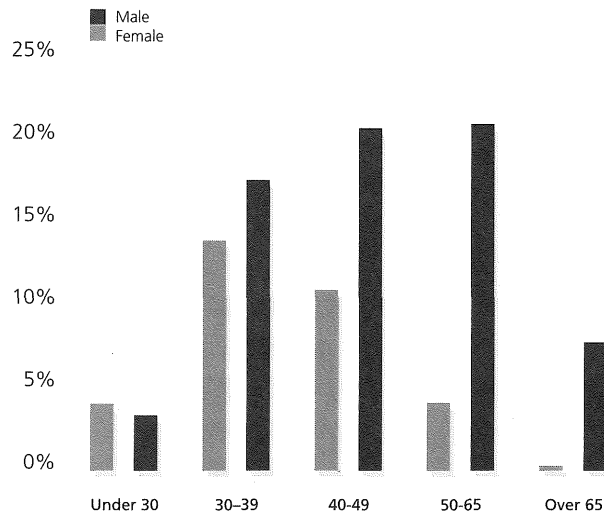


Membership by area of employment in Ontario
% of total employed members



- Total employed members = 25,442
- Other category includes corporate and non-profit sectors

Membership by age range and sex
% of members in good standing

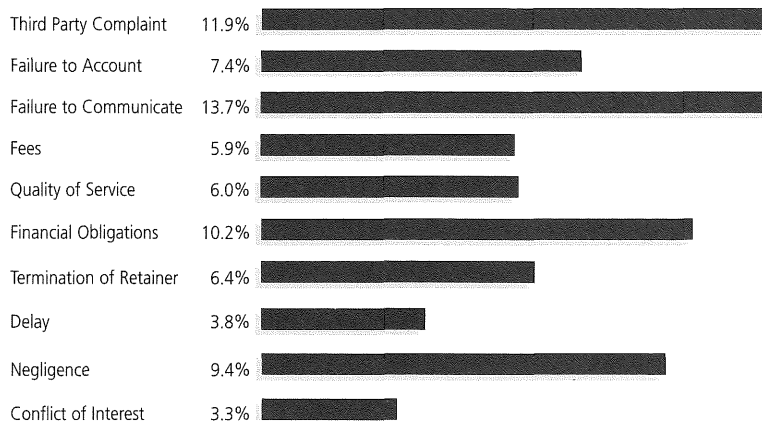


Size of Law Firm:

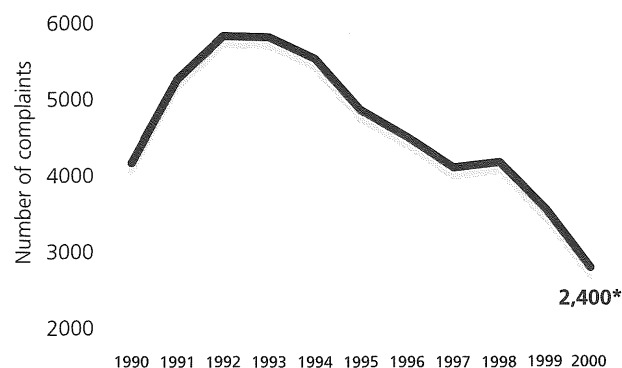
1 lawyer	5,377	72.7%
2-10 lawyers	1,859	25.1%
11-25 lawyers	112	1.5%
26-50 lawyers	24	0.3%
51+ lawyers	28	0.4%

Complaints Statistics

Complaints received by type 2000

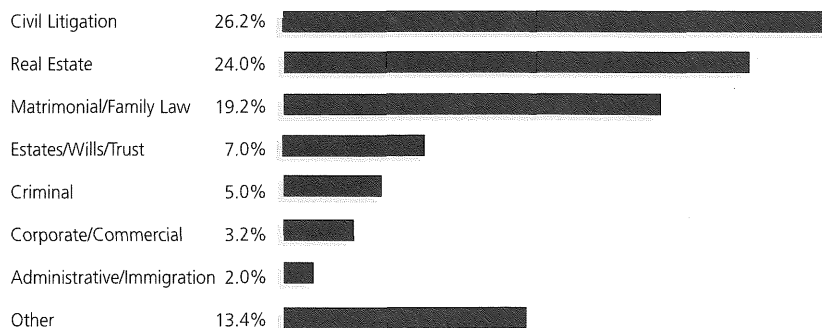


Complaints received by the Law Society



* In 2000, an additional 3,600 issues were determined not to be within the Law Society's jurisdiction.

Complaints received by area of law 2000



2000 Discipline

Number of lawyers:

reprimanded in Committee	9
reprimanded by Convocation and Hearing Panel	9
admonished by Hearing Panel	17
suspended	21
disbarred	8
permitted to resign	1

12-22

GENERAL FUND

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

23-29

**LAWYERS FUND FOR
CLIENT COMPENSATION**

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

30-40

**ERRORS AND OMISSIONS
INSURANCE FUND**

*Management Discussion and Analysis,
Auditors' Report, Actuary's Report,
Financial Statements and Notes*



GENERAL FUND

The Society's General Fund comprises its operating fund, referred to as the unrestricted fund, the capital assets fund, funds restricted by Convocation for specific purposes such as county libraries and endowment funds held in trust. The Society's annual membership fee is based on the financial requirements of the restricted and unrestricted funds. In 2000, the General Fund generated a deficit of \$1.985 million compared to a surplus of \$1.966 million in 1999.

STATEMENT OF REVENUES AND EXPENSES

Revenues & Expenses

The Society's total revenues increased by \$1.2 million in 2000 exceeding budget by approximately \$1.0 million. These increased funds were applied primarily to regulatory functions and technology related projects.

Membership Fees

Membership fee revenues increased by \$3.3 million to \$29.9 million in 2000, as a result of membership growth and the increase of \$93 per member in the General Fund levy.

Errors & Omissions Fund Investment Income

Income surplus to the needs of the Errors & Omissions Fund, was reduced by \$1.8 million from 1999.

Regulatory Expenses

Regulatory expenses were up \$2.1 million over 1999 to \$10.8 million with significant increases in investigations, advisory and compliance services and outside counsel expenditures.

Administration

Administration expenses of \$7.2 million increased by \$2.1 million from 1999, attributable mainly to the full implementation of the client service centre and the Society's equity program.

Restricted Fund Expenses

Restricted fund expenses declined in 2000 by \$2.3 million to \$8.9 million, primarily as a result of the end of the Society's funding of Legal Aid.

Amortization-Invested in Capital Assets

The cost for the amortization of the Society's assets increased to \$2.034 million from \$1.524 million in 1999. Amortization is a non-cash expense of the Society and does not contribute to the calculation of the annual membership fee. The Society raises, as part of its annual levy, funds for the acquisition of capital assets and retains them in the Osgoode Hall Capital Fund. The unamortized balance of the Society's assets is equal to the Invested in Capital Assets Fund balance.

BALANCE SHEET

Investments

The Society's investments increased by \$3.5 million to \$12.4 million in 2000. This is largely due to the early payment of 2001 membership fees. Similarly, the deferred revenue balance of \$3.9 million (1999 – \$1 million) is significantly increased as a consequence of these early payments.

Fund Balance

The accumulated fund balances declined by \$1.985 million to \$23.091 million in 2000. The decline was anticipated as planned technology expenses were funded from the accumulated balance at the end of 1999.

GENERAL FUND

Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA:

We have audited the balance sheets of THE LAW SOCIETY OF UPPER CANADA – GENERAL FUND as at December 31, 2000 and 1999, and the related statements of revenues and expenses, fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada
February 9, 2001



GENERAL FUND

Balance Sheet

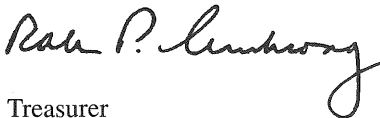
Stated in thousands of dollars

As at December 31

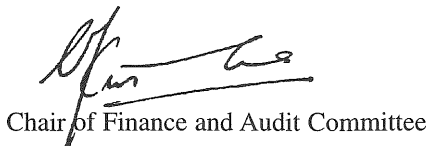
	2000	1999
ASSETS		
Cash and short-term investments	12,438	8,979
Accounts receivable	1,885	3,120
Prepaid expenses and deferred charges	276	278
Capital assets (<i>note 3</i>)	17,726	18,494
Total Assets	32,325	30,871
LIABILITIES AND FUND BALANCES		
Accounts payable and accrued liabilities	5,321	4,716
Deferred revenue	3,913	1,079
Total Liabilities	9,234	5,795
FUND BALANCES		
Unrestricted fund	157	1,697
Invested in capital assets	17,726	18,494
Restricted funds	4,718	4,410
Endowment funds	490	475
Total Fund Balances	23,091	25,076
Total Liabilities and Fund Balances	32,325	30,871

See accompanying notes

On behalf of Convocation



Treasurer


Chair of Finance and Audit Committee

GENERAL FUND

Statement of Revenues and Expenses and Fund Balances

Stated in thousands of dollars

Year ended December 31

	2000	1999
REVENUES		
Membership fees (<i>note 4</i>)	29,933	26,612
Bar admission course	6,671	7,349
Libraries	2,255	2,091
Continuing legal education	2,020	1,871
Other	1,803	1,825
Errors & Omissions Fund investment income	1,800	3,650
Investment income	1,123	1,020
Total revenues	45,605	44,418
PROGRAM EXPENSES		
Regulatory	10,790	8,660
Administration	7,249	5,155
Bar admission course	6,061	5,783
Library services	2,206	1,980
Information systems	2,073	1,640
Facilities	1,765	1,853
Continuing legal education	1,631	1,433
Public affairs	1,314	1,052
Total program expenses	33,089	27,556
Other unrestricted fund expenses	3,469	2,042
Total Unrestricted Fund Expenses	36,558	29,598
Restricted fund expenses	8,989	11,315
Amortization	2,034	1,524
Endowment funds	9	15
Total expenses	47,590	42,452
Operating (deficit) surplus	(1,985)	1,966
Fund balances, beginning of year	25,076	23,110
Fund balances, end of year	23,091	25,076

See accompanying notes

GENERAL FUND



Statement of Fund Balances

Stated in thousands of dollars

Year Ended December 31

Year Ended December 31	2000									1999	
	RESTRICTED FUNDS										
	Unrestricted Fund	Invested in Capital Assets	Osgoode Hall Capital	County Libraries	Technology Enhanced Learning	Working Capital Reserve	Technology	Total Restricted Funds	Endowment Funds	Total	Total
Revenues	37,380	—	1,266	6,302	—	—	633	8,201	24	45,605	44,418
Expenses	(36,558)	(2,034)	(413)	(6,109)	(6)	(4)	(2,457)	(8,989)	(9)	(47,590)	(42,452)
Operating surplus (deficit)	822	(2,034)	853	193	(6)	(4)	(1,824)	(788)	15	(1,985)	1,966
Interfund transfers											
Opening surplus transfers	(1,311)	—	—	—	272	—	1,039	1,311	—	—	—
Transfer to fund technology	(1,051)	—	—	—	—	—	1,051	1,051	—	—	—
Expenditures capitalized	—	1,266	(194)	—	(806)	—	(266)	(1,266)	—	—	—
Total interfund transfers	(2,362)	1,266	(194)	—	(534)	—	1,824	1,096	—	—	—
Changes in fund balances	(1,540)	(768)	659	193	(540)	(4)	—	308	15	(1,985)	1,966
Fund balances, beginning of year	1,697	18,494	1,769	1,604	775	262	—	4,410	475	25,076	23,110
Fund balances, end of year	157	17,726	2,428	1,797	235	258	—	4,718	490	23,091	25,076

See accompanying notes

GENERAL FUND

Statement of Cash Flows

Stated in thousands of dollars

Year ended December 31

	2000	1999
OPERATING ACTIVITIES		
General fund surplus (deficit):	(1,985)	1,966
Items not affecting cash:		
Amortization of capital assets	2,034	1,524
Other operating sources (uses) of cash:		
Accounts receivable	1,235	(753)
Prepaid expenses and deferred charges	2	161
Accounts payable and accrued liabilities	605	847
Due to Legal Aid Plan	—	(3,132)
Deferred revenue	2,834	677
Total operating activities	4,725	1,290
INVESTING ACTIVITY		
Capital asset additions	(1,266)	(1,969)
Net increase (decrease) in cash and short-term investments during the year	3,459	(679)
Cash and short-term investments, beginning of year	8,979	9,658
Cash and short-term investments, end of year	12,438	8,979

See accompanying notes



GENERAL FUND

Notes to Financial Statements

For the year ended December 31, 2000

(Stated in whole dollars except where indicated)

1. Description of Fund

The Law Society of Upper Canada (the "Society") was founded in 1797 and was incorporated in 1822 with the enactment of the *Law Society Act*. The Society exists to govern the legal profession in the public interest. This is achieved by ensuring that the people of Ontario are served by lawyers who meet high standards of learning, competence and professional conduct and by upholding the independence, integrity and honour of the legal profession, for the purpose of advancing the cause of justice and the rule of law. This mandate is carried out by the governing body of the Society which is known as *Convocation*.

The *Law Society Amendment Act, 1998* received royal assent in December 1998 and came into force on February 1, 1999. This Act makes substantive and important amendments to the *Law Society Act*, including a restructuring scheme of professional governance based on the authority in the statute. The *Law Society Amendment Act, 1998*, authorizes the Society to make regulations, by-laws and rules of practice and procedure as a means of governing all proceedings described in the Act.

The Society is not subject to income or capital taxes because it is a not-for-profit corporation.

These financial statements represent the financial position of operations of the Law Society of Upper Canada – General Fund, which includes certain internally restricted funds, and do not purport to represent all assets and liabilities under the control of the Society.

Separate financial statements have been prepared for the following related entities:

Lawyers Fund for Client Compensation

The Society maintains the Lawyers Fund for Client Compensation pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was, or is, a trustee. The Lawyers Fund for Client Compensation is financed by members' annual fees and investment income. The Lawyers Fund for Client Compensation reimburses the Society for certain administrative expenses, totalling in 2000 \$1,568,971 (1999 – \$1,331,750).

Errors & Omissions Insurance Fund and Lawyers' Professional Indemnity Company

The Society provides professional liability insurance to the legal profession through the Errors and Omissions Insurance Fund (the "E&O Fund") and the Lawyers' Professional Indemnity Company ("LPIC"). The E&O Fund was originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment. Prior to July 1, 1990 the Errors and Omissions Insurance program was underwritten by various insurance carriers. LPIC took over underwriting the program commencing July 1, 1990. LPIC is a wholly owned subsidiary of the Society that was incorporated in 1990 and licensed to provide lawyers' professional liability and title insurance.

Law Society Foundation

The Law Society Foundation ("LSF") was incorporated by Letters Patent in October 1962. The LSF is a registered charity under the terms of the *Income Tax Act* and as such, is exempt from income taxes. The objects of the LSF are

GENERAL FUND

to foster, encourage and promote legal education in Ontario, provide financial assistance to law students in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, and to maintain a collection of gifts of books and other written material for use by educational institutions in Canada and to receive donations and maintain a fund for the relief of poverty by providing meals to persons in need.

The Law Foundation of Ontario

The Law Foundation of Ontario was created to receive interest accruing on monies held in lawyers' mixed trust accounts and to establish and maintain a fund to be used for the purposes of legal education and legal research, legal aid and the establishment, maintenance and operation of law libraries. During 2000 the Law Foundation of Ontario contributed to the General Fund of the Society \$1,300,000 (1999 – \$1,062,900) for the operation of the Bar Admission Course and \$1,030,000 (1999 – \$895,000) for library programs.

2. Significant Accounting Policies

Fund Accounting

The Society follows the restricted fund method of accounting.

The *Unrestricted Fund* accounts for the Society's programme delivery and administrative activities. This fund reports unrestricted resources. All acquisitions, amortization and other expenditures relating to capital assets are reported in the *Invested in Capital Assets Fund*.

The *Osgoode Hall Capital Fund* reports funds that have been internally restricted by Convocation for the purposes of undertaking capital projects at Osgoode Hall and other Society facilities. On an annual basis, capital works are identified and appropriate funding is raised as part of membership fees.

The *County Library Fund* accounts for funds raised on behalf of the 48 County and District Law Libraries. These funds are internally restricted for use by these Law Libraries to carry out their annual operations and any special projects approved by Convocation. In 2000, a corporation was established to administer the distribution of these funds and to develop policy, priorities, guidelines and standards for the delivery of county law library services across Ontario. Operations of this corporation will commence in 2001.

The *Technology Enhanced Learning Fund* reports resources set aside for development and implementation of assistive technology for the Bar Admission Course. This fund was established in 1999 with a capital grant of \$775,000 received from the Law Foundation of Ontario. This fund is internally restricted by Convocation.

The *Working Capital Reserve Fund* was created in January 2000 when Convocation directed that this fund replace the Insurance Levy Waiver Fund, and set it aside to ensure the continuous funding of the Law Society's operations. On an annual basis, funds which are not used to meet current obligations are to be transferred and accumulated in this reserve until such time that the balance reaches \$3,500,000. The fund is internally restricted by Convocation.

The *Technology Fund* reports funds that have been internally restricted by Convocation for the purposes of undertaking technological capital acquisitions. On an annual basis, technological acquisitions and improvements are identified and appropriate funding is raised through a levy on the membership.

The Society administers two *Endowment Funds*. The Law Society Trust has been established in accordance with the terms of the endowment so that the Society can award prizes, bursaries and gifts to deserving students in the Bar Admission Course. The J. Shirley Denison Fund has been established to provide relief and assistance to members



GENERAL FUND

and former members who find themselves in difficult financial circumstances. Contributions for endowment are recognized as revenue in the Endowment Fund. For 2000 no funds were contributed for endowment purposes. Increases to the fund balances are reflective of interest income only.

Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy. Short-term investments are stated at the lower of cost and market value. Investment income, except income earned on resources held for endowment, is retained in and reported by the Unrestricted Fund.

Capital assets

Land, buildings, major building improvements, furniture, equipment and computer hardware and software are presented at cost net of accumulated amortization and grants. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets commencing in the year following acquisition as follows:

Buildings	30 years
Building improvements	3 to 10 years
Furniture, equipment and computer hardware and software	3 to 5 years

Revenue Recognition

Restricted contributions related to the general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Unrestricted contributions are recognized as revenue of the Unrestricted Fund in the year received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items.

Volunteer services

The work of the Society is dependent on the voluntary services of the elected Benchers and other members of the profession. These services are received gratuitously, therefore, no value has been included in these financial statements.

Financial instruments

The estimated fair value of cash and short-term investments, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

Measurement Uncertainty

The preparation of the financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GENERAL FUND

3. Capital Assets

As at December 31, 2000

	Cost \$000's	Accumulated Amortization \$000's	Net \$000's
Land and buildings	28,779	14,369	14,410
Building improvements	1,771	1,149	622
Furniture, equipment and computer hardware and software	8,083	5,389	2,694
	38,633	20,907	17,726

As at December 31, 1999

	Cost \$000's	Accumulated Amortization \$000's	Net \$000's
Land and buildings	28,575	13,716	14,859
Building improvements	2,321	1,522	799
Furniture, equipment and computer hardware and software	7,542	4,706	2,836
	38,438	19,944	18,494

4. Membership Fees

Membership fees are levied for the operation of the Society and for the Lawyers Fund for Client Compensation as well as the following restricted funds: County Libraries, Osgoode Hall Capital and Technology. Membership fees are recorded when billed. The restricted funds are collected and accumulated in special purpose funds and reported on the Balance Sheet under the Liabilities and Fund Balances Section. The Lawyers Fund for Client Compensation completes its own set of financial statements.

5. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. The plan covers employees of the Society and the Lawyers Fund for Client Compensation. The Society matches its employees' contributions to the plan. The Society's pension expense [excluding the Lawyers Fund for Client Compensation] for the year ended December 31, 2000 amounted to \$555,395 (December 31, 1999 - \$537,243).



GENERAL FUND

6. Commitments

The Society is committed to monthly lease payments for property and computer facilities under leases having various terms up to the end of 2010. In addition, the Society is committed to a minimum monthly payment to 2003 for its contracted printing and mailroom services. Aggregate monthly payments over the next five years and beyond in total are estimated as follows:

Year	\$000's
2001	1,458
2002	1,134
2003	314
2004	336
2005	351
2006 & beyond	1,786
Total	5,379

7. Contingent Liabilities

Favourable judgement with respect to three claims made against the Society as a result of an alleged copyright infringement was made in 1999. The plaintiffs have appealed and the Society has cross appealed. At this point in time, the only financial exposure to the Society is for legal costs of the plaintiff in the event that the Society is not successful on appeal. No provision has been included in the financial statements.

There is one claim which was reported in 1991 where the damages sought are \$13,000,000. The Society's lawyer brought an Application for Summary Judgement and the action was dismissed as disclosing no cause for action. The counsel for the plaintiff has launched an appeal and if successful will proceed with an Application for Certification as a Class Action. The Society will resist this application. No provision has been included in the financial statements.

In addition, a number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion that based on the information presently available, it is unlikely that any liability, to the extent not covered by insurance, would be material to the Society's financial position.

8. Comparative Financial Statements

Certain amounts in the comparative financial statements have been reclassified to conform to the current year presentation.

LAWYERS FUND FOR CLIENT COMPENSATION FUND

The Compensation Fund experienced a deficit of \$3.1 million in 2000. The deficit is primarily attributable to claims against a single member that were reported after the levy for 2000 was established. Member levies in 2001 have been increased by \$169 per member as part of the program to maintain the integrity of the Fund. In 2001, the Compensation Fund has also entered into an insurance program for the first time. The insurance program will limit the Fund's exposure to the effects of an unusually large claims experience in one year. Should the Fund experience a more normal claims year in 2001, of \$3.0 to \$3.5 million in claims, the Fund surplus would increase by up to \$2.25 million, restoring the Fund balance almost to its level prior to the major defalcation in 2000.

STATEMENT OF REVENUES AND EXPENSES

Membership Fees

Membership fees declined by nearly \$300,000 to \$5.3 million as a result of a 10% reduction in the member's annual levy from \$235 in 1999 to \$210 in 2000.

Provision for Unpaid Grants

Grants paid and the net increase to the provision for unpaid grants increased by \$3.0 million to \$6.2 million primarily due to notification of a single large defalcation during the year of approximately \$4.6 million. Aside from this single large defalcation, the claims experience has improved from 1999.

BALANCE SHEET

Cash and Short Term Investments

Portfolio Investments

Cash and short-term investments at \$5.2 million (1999 – \$6.3 million) and portfolio investments at \$13.5 million (1999 – \$13.6 million) have decreased from the previous year as a result of the adverse claims experience during the year. The market value of investments is marginally higher than book value.

Reserve for Unpaid Grants

Based upon the actuary's valuation of the grant reserve, the reserve for unpaid grants has increased by \$2.1 million to \$9.7 million. This increase is in large measure due to the single major defalcation in 2000, and the claims resulting from it. This defalcation has been fully provided for in the financial statements. The estimation of the reserve for unpaid grants introduces measurement uncertainty, and is subject to variation. The estimations are intended to be prudently conservative.



LAWYERS FUND FOR CLIENT COMPENSATION

Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA:

We have audited the balance sheets of THE LAW SOCIETY OF UPPER CANADA – LAWYERS FUND FOR CLIENT COMPENSATION as at December 31, 2000 and 1999, and the related statements of revenues and expenses and fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Andersen LLP

Toronto, Canada
February 9, 2001

LAWYERS FUND FOR CLIENT COMPENSATION

Balance Sheet

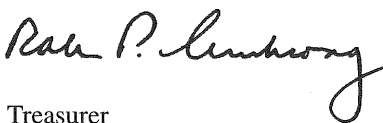
Stated in thousands of dollars

As at December 31

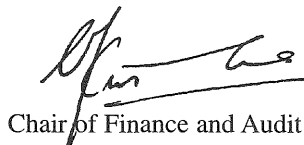
	2000	1999
ASSETS		
Cash and short-term investments	5,245	6,348
Interest and other receivables	453	308
Portfolio investments, at amortized cost (market value - \$13,646; 1999 - \$13,479)	13,497	13,552
Total Assets	19,195	20,208
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	173	145
Reserve for unpaid grants	9,708	7,627
Total Liabilities	9,881	7,772
Fund Balance	9,314	12,436
Total Liabilities and Fund Balance	19,195	20,208

See accompanying notes

On behalf of Convocation



Treasurer


Chair of Finance and Audit Committee



LAWYERS FUND FOR CLIENT COMPENSATION

Statement of Revenues and Expenses and Fund Balance

Stated in thousands of dollars

Year ended December 31

	2000	1999
REVENUES		
Membership fees	5,317	5,664
Investment income	1,286	1,474
Total revenues	6,603	7,138
EXPENSES		
Grants paid	4,446	6,928
Increase/(decrease) to reserve for unpaid grants	2,081	(3,518)
Recoveries	(352)	(252)
Provision for unpaid grants	6,175	3,158
Administrative	1,627	1,410
Audit expenses	825	968
Salaries and benefits	1,022	698
Counsel fees	60	66
Referees' and reporters' fees	16	16
Total expenses	9,725	6,316
Surplus/(deficit)	(3,122)	822
Fund balance, beginning of year	12,436	11,614
Fund balance, end of year	9,314	12,436

See accompanying notes

LAWYERS FUND FOR CLIENT COMPENSATION

Statement of Cash Flows

Stated in thousands of dollars

Year ended December 31

	2000	1999
OPERATING ACTIVITIES		
Surplus/(deficit)	(3,122)	822
Items not affecting cash:		
Experience loss of reserve for unpaid grants	6,175	3,158
Other operating sources (uses) of cash:		
Interest and other receivables	(145)	157
Recoveries	352	252
Accounts payable and accrued liabilities	28	88
Grants paid	(4,446)	(6,928)
Total operating activities	(1,158)	(2,451)
FINANCING ACTIVITIES		
Portfolio investments	55	(45)
Net decrease in cash and short-term investments during the year	(1,103)	(2,496)
Cash and short-term investments, beginning of year	6,348	8,844
Cash and short-term investments, end of year	5,245	6,348

See accompanying notes



LAWYERS FUND FOR CLIENT COMPENSATION

Notes to Financial Statements

For the year ended December 31, 2000

(Stated in whole dollars except where indicated)

1. Description of Fund

The Lawyers Fund for Client Compensation (the "Fund") is maintained by The Law Society of Upper Canada (the "Society") pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice, or in connection with any trust of which the member was or is a trustee. The Fund is financed by members' annual fees and investment income.

The Fund is not subject to income or capital taxes because it is a fund of the Society, a not-for-profit corporation.

Certain services are provided by the General Fund of the Society to the Fund. The cost of these services is included in administrative expenses. The charges for the year amount to \$1,568,971 (1999 – \$1,331,750).

2. Significant Accounting Policies

Fund Accounting

The Fund follows the restricted fund method of accounting. The Fund accounts for the programme delivery, administration and payment of grants from the Fund. The Fund is restricted in use by the *Law Society Act*.

Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy. Short-term investments are stated at the lower of cost and market value.

Portfolio investments

Portfolio investments are recorded at cost, net of amortization of premiums and discounts. Investments consist of government and corporate bonds. Only if a loss in the value of an investment is other than a temporary decline, is the investment written down to recognize the loss.

Grants

Pursuant to section 51(5) of the *Law Society Act*, the payment of grants from the Fund is at the discretion of Convocation, the governing body of the Society. Grants paid are subject to a \$100,000 limit per applicant. A reserve for unpaid grants is recorded as a liability on the balance sheet. This reserve represents an estimate of the present value of grants to be paid for unprocessed claims and the associated administrative costs, as determined by an actuary. The related grant expense represents grant payments during the year plus the current year experience gain/loss of the reserve for unpaid grants, net of recoveries.

LAWYERS FUND FOR CLIENT COMPENSATION

Financial instruments

The estimated fair value of cash and short-term investments, interest and other receivables and accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

3. Measurement Uncertainty

The valuation of unpaid grants anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimations and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates. No provision has been made for otherwise unforeseen changes to the legal or economic environment in which claims are settled, nor for causes of loss which are not already reflected in the historical data. Management believes that the techniques employed and assumptions made are appropriate and the conclusions reached are reasonable given the information currently available. Estimates of unpaid grants are reviewed at least annually by an actuary and, as adjustments become necessary, they are reflected in current operations.



ERRORS AND OMISSIONS INSURANCE FUND

COMBINED INCOME STATEMENT

In 2000, the Fund generated an excess of revenue over expenses of \$8.9 million, a decrease of \$16.6 million from 1999. The decrease in revenues of \$20.6 million was partially offset by a decrease in expenses of \$4.0 million.

Members' Levies

Members' levies decreased by \$30.1 million to \$72.8 million in 2000. This decrease was a result of the following: \$14.7 million of retrospective premium rate adjustments, which are included in funds held in trust for future insurance purposes; a reduction in the professional liability base premium of \$500 per lawyer; and the discontinuance of the volume levy.

Investment Income

The Fund generated \$19.0 million of investment income, an increase of \$8.4 million. The increased investment income reflects \$5.9 million in gains realized from sales of investments in 2000, as compared to a corresponding loss of \$1.2 million in 1999. At year-end, the market value of the portfolio exceeds book value by \$4.2 million.

Net Claims and Adjustment Expenses

Incurred claims costs decreased by \$1.8 million in 2000 from 1999, a product of favourable development on claims reserves from prior years.

The claims reported in 2000 were roughly consistent both in average severity and in number with those reported in 1999.

Reinsurance Premiums

The Fund continues to partner with Canadian licensed reinsurers in 2000 and, consistent with the reinsurance strategy first introduced in 1995, shares risk proportionately from first dollar of loss in both its Ontario professional liability and title insurance lines of business. In 2000 these programs were reinsured 50%. The cost of this protection decreased in 2000.

COMBINED BALANCE SHEET

Investments

Investment assets, inclusive of cash and cash equivalents, increased by \$17.4 million to \$269.7 million at December 31, 2000. This is primarily due to an increase in the funds held in trust for future insurance purposes. Investment assets are invested in accordance with investment policy in a diversified, high quality portfolio.

Funds Held in Trust for Future Insurance Purposes

These funds have increased by \$20.7 million from 1999. This is primarily due to funds of \$14.7 million from retrospective premium rate adjustments under the insurance agreement between Lawyers' Professional Indemnity Company and the Fund. The excess revenue from transaction based levies also contributed towards the increase. These funds will be applied as premiums in future years.

Surplus

Surplus has increased by \$8.9 million, the amount of excess of revenue over expenses for the year 2000.

ERRORS AND OMISSIONS INSURANCE FUND

Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA

We have audited the combined balance sheet of THE LAW SOCIETY OF UPPER CANADA – ERRORS AND OMISSIONS INSURANCE FUND as at December 31, 2000 and the combined statements of revenue and expenses and surplus, and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Ontario
February 14, 2001



ERRORS AND OMISSIONS INSURANCE FUND

Actuary's Report

For Combined Financial Statements at December 31, 2000

ROLE OF THE VALUATION ACTUARY

The valuation actuary is appointed by the Audit Committee of the Lawyers' Professional Indemnity Company in its capacity as manager of the Law Society of Upper Canada Errors and Omissions Insurance Fund.

With respect to the preparation of these combined financial statements, the actuary is required to carry out a valuation of the claims liabilities and to report thereon to the Audit Committee, and through it to the membership of the Law Society. The valuation is carried out in accordance with accepted actuarial practice, except as specifically disclosed to the contrary, and regulatory requirements. The scope of the valuation encompasses the claims liabilities, that is the provision for unpaid claims and adjustment expenses on claims incurred and reported prior to December 31, 2000, the date of these combined financial statements.

In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Errors and Omissions Insurance Fund, the Lawyers' Professional Indemnity Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates, consequently, the final values may vary significantly from those estimates. The actuary also makes use of management information provided by the Law Society and the Lawyers' Professional Indemnity Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

VALUATION ACTUARY'S REPORT

I have valued the claims liabilities arising on the errors and omissions insurance coverage arranged by the Law Society of Upper Canada for its Errors and Omissions Insurance Fund combined balance sheet as at December 31, 2000, and their changes in its combined statement of revenue and expenses and surplus for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the claims liabilities makes appropriate provision for all such obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 14, 2001


Brian G. Pelly
Fellow, Canadian Institute of Actuaries

ERRORS AND OMISSIONS INSURANCE FUND

Combined Balance Sheet

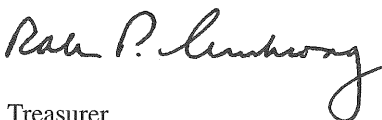
Stated in thousands of dollars

As at December 31

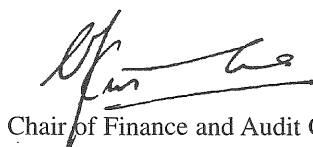
	2000	1999
ASSETS		
Investments (<i>note 4</i>)	265,382	238,674
Cash and cash equivalents	4,379	13,685
Investment income due and accrued	2,990	2,514
Accounts receivable	17,328	9,211
Reinsurers' share of provision for unpaid claims and adjustment expenses (<i>note 6</i>)	159,803	155,769
Future/deferred income taxes	4,733	6,607
Other assets	1,155	1,242
Total assets	455,770	427,702
LIABILITIES AND SURPLUS		
Provision for unpaid claims and adjustment expenses (<i>notes 3 and 6</i>)	341,161	336,059
Funds held in trust for future insurance purposes (<i>note 8</i>)	25,870	5,156
Accounts payable and accrued liabilities	10,558	17,241
Surplus (<i>note 5</i>)	78,181	69,246
Total liabilities and surplus	455,770	427,702

See accompanying notes

On behalf of Convocation:



Treasurer



Chair of Finance and Audit Committee



ERRORS AND OMISSIONS INSURANCE FUND

Combined Statement of Revenue and Expenses and Surplus

Stated in thousands of dollars

Year Ended December 31

	2000	1999
REVENUE		
Members' levies (<i>notes 7 and 8</i>)	72,814	102,927
Reinsurance commissions	8,717	7,800
Investment income	19,082	10,610
Other revenue	1,664	1,616
Total revenue	102,277	122,953
EXPENSES		
Net claims and adjustment expenses (<i>notes 3 and 6</i>)	31,792	33,626
Reinsurance premiums	37,714	39,024
General expenses	9,454	8,545
Transfer to Law Society General Fund (<i>note 9</i>)	1,800	3,650
Funds held in trust for future insurance purposes (<i>note 8</i>)	6,037	5,156
Premium taxes	2,068	2,496
Provision for income taxes (<i>note 11</i>)	4,477	4,909
Total expenses	93,342	97,406
Excess of revenue over expenses	8,935	25,547
Surplus, beginning of period	69,246	43,699
Surplus, end of period (<i>note 5</i>)	78,181	69,246

See accompanying notes

ERRORS AND OMISSIONS INSURANCE FUND

Combined Statement of Cash Flows

Stated in thousands of dollars

Year Ended December 31

	2000	1999
OPERATING ACTIVITIES		
Excess of revenue over expenses	8,935	25,547
Other operating sources (uses) of cash:		
Provision for unpaid claims and adjustment expenses	5,102	(3,515)
Accounts receivable and other assets	(8,030)	233
Recoverable from reinsurers	(4,034)	(365)
Funds held in trust for future insurance purposes	20,714	5,156
Future/deferred income taxes	1,874	(4,998)
Accounts payable and accrued liabilities	(6,683)	5,911
Investment income due and accrued	(476)	75
Total funds provided by operating activities	17,402	28,044
FINANCING ACTIVITIES		
Purchases of investments, net	(26,708)	(21,021)
Net change in cash and cash equivalents	(9,306)	7,023
Cash and cash equivalents, beginning of period	13,685	6,662
Cash and cash equivalents, end of period	4,379	13,685

See accompanying notes



ERRORS AND OMISSIONS INSURANCE FUND

Notes to Combined Financial Statements

For the year ended December 31, 2000

(Stated in whole dollars except where indicated)

1. The Insurance Program and its Risk Retention and Reinsurance Structure

The combined financial statements of the Errors and Omissions Insurance Fund account for the net results of the professional liability insurance program of the Law Society of Upper Canada ("the Society"). The program requires practicing members to pay annual levies to fund the anticipated costs of professional liability claims made in each annual policy period. Indemnification of members is subject to the terms of the insurance policy, including financial limits per claim and aggregate limits per member in each policy period.

These financial statements combine the results of operations and the financial positions of:

- the Errors and Omissions Insurance Fund of the Society ("the Fund"), the fund originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment; and
- Lawyers' Professional Indemnity Company ("LPIC"), a wholly owned subsidiary of the Society that was incorporated in 1990 as an insurance company and is licensed to provide lawyers' professional liability and title insurance.

The risk retention and reinsurance structures employed through these two entities are described in the following paragraphs.

Prior to July 1, 1990, the Society's Errors and Omissions Insurance Program was underwritten by various insurance carriers subject to a policy deductible. LPIC took over the underwriting of the program commencing July 1, 1990. The Society maintained financial responsibility for the policy deductible through to December 31, 1994. The policy deductible was a combination of a group deductible and the individual member deductible. For the periods noted below, the combined policy deductibles were as follows:

July 1982 to June 1986	\$ 100,000 per occurrence
July 1986 to June 1988	\$ 150,000 per occurrence
July 1988 to June 1990	\$ 250,000 per occurrence
July 1990 to December 1991	\$ 200,000 per occurrence
January 1992 to December 1994	\$ 250,000 per occurrence

The Society arranged Stop Loss reinsurance that limited the aggregate exposure to group deductibles. The Stop Loss limits were as follows:

July 1982 to June 1983	\$ 8,605,894
July 1983 to June 1984	\$ 8,903,588
July 1984 to June 1985	\$10,000,000
July 1985 to June 1986	\$12,250,000
July 1986 to June 1987	\$20,000,000
July 1987 to June 1988	\$22,000,000
July 1988 to June 1989	\$27,000,000

ERRORS AND OMISSIONS INSURANCE FUND

The Society was not able to arrange Stop Loss reinsurance on its group deductible after the policy period ending June 1989. As a result, the full financial risk of the deductible rested with the Society, from July of 1989 through the policy period ended December 1994.

LPIC also had a net retention over the policy's group deductible as follows:

- July 1, 1990 to December 31, 1991: LPIC is liable for \$50,000 of all individual losses in excess of \$200,000;
- January 1, 1992 to December 31, 1992: LPIC is liable for an aggregate of \$2,500,000 from individual losses incurred in excess of \$250,000 plus a further 10% of all losses above \$250,000 once the initial \$2,500,000 limit has been reached; and
- January 1, 1993 to December 31, 1994: LPIC is liable in each policy year for an aggregate of \$4,000,000 if incurred losses are above or exceed \$250,000 plus a further 10% of all losses in excess of \$250,000 once the initial \$4,000,000 limit has been reached.

It was decided, effective January 1, 1995, to eliminate the self-insured group deductible. Commencing January 1, 1995, 100% of the risk over the individual member deductible is insured within LPIC. LPIC in turn reinsures 50% of its risk retention to third party Canadian licensed reinsurers. The policy limits for the period January 1, 2000 through December 31, 2000 are \$1 million per claim and \$2 million per member in aggregate.

2. Significant Accounting Policies

These combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

Members' Levies

Members' levies are recorded when billed with the exception of those based on transactions. The transaction levy, first introduced in 1995, is recorded on a cash basis based on members' filings.

Investments

Investments in debt securities are recorded at amortized cost. Premiums and discounts from par value are amortized on a straight-line basis over the term to maturity. Investments in common or preferred shares are carried at cost. Gains and losses on investments are included in investment income when realized.

Claims related balances

a) Provision for unpaid claims and adjustment expenses

The insurance program covers claims made against insureds in the policy period.

The provision is determined using case-basis evaluations plus an amount for future development and delayed reporting and it is an estimation of the ultimate discounted cost of all insurance claims to December 31, 2000. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

The provision for unpaid claims is presented net of a discount that reflects an estimation of the investment income that will be earned on funds until they are paid out in settlement of claims. Accordingly, the provision as recorded represents fair value. The estimation of the discount is based on anticipated investment rates of return and experience with payout patterns on similar types of claims.



ERRORS AND OMISSIONS INSURANCE FUND

b) Reinsurers' share of provisions for unpaid claims and adjustment expenses

Expected reinsurance recoveries on unpaid claims and adjustment expenses, are recognized as assets at the same time as, and using principles consistent with the Society's method for establishing the related liability.

c) Members' Deductibles

The insurance policy calls for insured members to pay deductibles which range from Nil up to \$25,000.

Expected deductible recoveries on paid and unpaid claims, are recognized net of any required provision for uncollectible accounts, using principles consistent with the Fund's method for establishing the related claims liability.

Income taxes

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the accrual method to the liability method with the adoption of Section 3465 of The Canadian Institute of Chartered Accountants' Handbook "Accounting for Income Taxes." The Company has applied the new method prospectively.

Under the liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized.

3. Measurement Uncertainty

The settlement of professional liability claims involves processes, the outcome of which is inherently uncertain. Consequently, the estimation of the ultimate settlement costs of claims made to date, that underlies the provision for unpaid claims and adjustment expenses, involves measurement uncertainty. The amounts are necessarily based on estimates of future trends in claim severity and other factors, which could vary as the claims are settled. Ultimate costs incurred will inevitably vary from current estimates, to some extent. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the provision for unpaid claims and adjustment expenses is adequate. Estimates are reviewed at least annually by an actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

There is also measurement uncertainty inherent in the estimation of reinsurance recoveries and members' deductible recoveries. Management is satisfied that appropriate provisions have been made for potentially unrecoverable amounts and believes that any remaining exposure would prove immaterial to these financial statements.

ERRORS AND OMISSIONS INSURANCE FUND

4. Investment Information

The Fund holds a diversified portfolio consisting of equities and securities with investment grades of "A" or better.

Estimated fair values and unrealized gains and losses

The book values, estimated fair values and unrealized gains on investments as at December 31 were as follows:

(000's)	2000			1999		
	Book value	Estimated fair value	Yield %	Book value	Estimated fair value	Yield %
Debt Securities	240,378	243,420	5.4	222,339	217,912	6.1
Common Shares	23,892	25,089		16,335	22,579	
Preferred Shares	1,112	1,060		—	—	
	<u>265,382</u>	<u>269,569</u>		<u>238,674</u>	<u>240,491</u>	

The estimated fair values of debt securities, common and preferred shares are based on quoted market values.

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2000 is as follows:

(000's)	Within 1 year	1 to 3 years	Over 3 years	Book value
Debt securities	6,261	105,566	128,551	240,378
Percent of total	3%	44%	53%	

The average duration of the portfolio at December 31, 2000 is 3.2 years, limiting the Fund's exposure to changing interest rates.

Equities have no specific maturities.

5. Surplus

The surplus of the Fund includes LPIC's capital and surplus. At December 31, 2000 the Statutory Capital, Surplus and Reserves of LPIC, as reported under insurance regulatory reporting, was \$63.6 million (1999 – \$59.7 million).

6. Claims and Adjustment Expenses

Reinsurance Ceded

To limit losses through the spreading of risks, the Society cedes reinsurance to other insurers.

Net claims and adjustment expenses presented in the statement of revenue and expenses are net of reinsurance ceded in the amounts of \$27,544,000 (1999 – \$28,048,000).

In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Society is liable for such amounts.



ERRORS AND OMISSIONS INSURANCE FUND

7. Members' Levies

Members' levies for the 2000 year include annual base levies of \$3,150 per member (1999 – \$3,650) and additional levies that are charged based on a member's claims history, status, and certain reported transaction volumes. In 2000, additional levies totalled \$30,049,300 (1999 – \$39,454,000).

8. Funds Held in Trust for Future Insurance Purposes

Revenues from transaction based additional levies are subject to variation in levels of legal transactions that, in part, reflect the changing economic climate. Any revenues from transaction and claims history levies that are in excess of premium levels agreed for the year, are held in trust for future insurance purposes and applied as premiums under the insurance program in future years. Further, these funds also reflect retrospective premium rate adjustments under the insurance agreement between the Society and LPIC.

9. Transfer to Law Society General Fund

In February 1999, the stand-alone Errors & Omission Insurance Fund deficit was retired. Accordingly, and as approved by Convocation, investment income revenues of the stand-alone Fund which were surplus to its claims obligations were made available to the Society for general purposes.

10. Commitments

The Company is committed to monthly lease payments under an agreement in effect until January 31, 2002. Lease payments in the next year total \$989,000.

11. Taxation

The Fund is not subject to income or capital taxes because it is a fund of a not-for-profit corporation. LPIC is subject to taxes.

CHANGES IN THE MEMBERSHIP OF CONVOCATION

APPOINTMENTS

Nancy Backhouse was appointed to the Superior Court of Justice on June 21, 2000.

Dino DiGiuseppe was appointed to the Ontario Court of Justice on November 15, 2000.

NEW BENCHERS

Pamela Divinsky and Robert F. Lalonde were appointed lay benchers on March 16, 2000.

John Adair Campion was elected a bencher to fill the vacancy resulting from the appointment to the bench of Nancy Backhouse on September 21, 2000.

Sanda Rodgers was elected a bencher to fill the vacancy resulting from the appointment to the bench of Dino DiGiuseppe on November 29, 2000.

DEATHS

The Hon. Justice Meyer Lerner, former bencher passed away on January 11, 2000.

Samuel Lerner, Q.C., ex-officio bencher passed away on February 29, 2000.

Robert S. Kemp-Welch, Q.C., ex-officio bencher passed away on July 29, 2000.

B. Clive Bynoe, Q.C., a former bencher passed away on August 27, 2000.

Frederick M. Cass, Q.C., ex-officio bencher passed away on November 25, 2000.

BENCHERS OF THE LAW SOCIETY OF UPPER CANADA

Treasurer

Robert P. Armstrong, Q.C.

Elected Benchers

Robert B. Aaron

Larry Banack

Gordon Bobesich

Leonard A.

Braithwaite, C.M., Q.C.

John A. Campion

Thomas J. P. Carey

Kim A. Carpenter-Gunn

Earl A. Cherniak, Q.C.

Paul Copeland

Eleanore A. Cronk

Marshall A. Crowe

Carole Curtis

Edward W. Ducharme

Todd Ducharme

Abraham Feinstein, Q.C.

Neil Finkelstein

Gary Lloyd Gottlieb, Q.C.

George D. Hunter

Professor Vern

Krishna, Q.C., FRSC

Gavin MacKenzie

Ronald D. Manes

Frank N. Marrocco, Q.C.

Robert Martin

W. A. Derry Millar

Gregory M. Mulligan

Ross William Murray, Q.C.

W. Niels Ortvad

Marilyn L. Pilkington

Julian Porter, Q.C.

Judith M. Potter

Helene Bruce Puccini

Sanda Rodgers

Heather Joy Ross

Clayton C. Ruby

William J. Simpson, Q.C., LSM

Gerald A. Swaye, Q.C.

Robert C. Topp

Donald D. White

Richmond C. E. Wilson, Q.C.

Bradley H. Wright

Appointed Benchers

Stephen Bindman

Abdul A. Chahbar

Andrew F. Coffey

Gillian M. Diamond

Pamela Divinsky

Seymour Epstein

Robert F. Lalonde

Barbara A. Laskin

Ex-Officio Benchers

The Hon. John D.

Arnup, Q.C., LSM

Marion Boyd

Ronald W. Cass, Q.C., LSM

John T. Clement, Q.C.

Austin M. Cooper, Q.C.

Susan Elliott

Gordon H. T.

Farquharson, Q.C., LSM

The Hon. James Flaherty

Patrick Garret

Furlong, Q.C., LSM

The Hon. Edwin A. Goodman,
P.C., O.C., Q.C.

Howard G. Hampton

Charles A. Harnick, Q.C.

Donald H. L.

Lamont, Q.C., LSM

The Hon. Allan F.

Lawrence, P.C., Q.C.

Laura L. Legge, Q.C.

The Hon. G. Arthur

Martin, Q.C.

Daniel J. Murphy, Q.C.

Brendan O'Brien, Q.C.

Alan W. Pope, Q.C.

The Hon. Sydney L.

Robins, Q.C., LSM

The Hon. Allan M.

Rock, P.C., Q.C.

Arthur R. A. Scace, Q.C.

Ian G. Scott, Q.C.

Harvey T. Strosberg, Q.C.

J. James Wardlaw, Q.C., LSM

Roger D. Yachetti, Q.C.

The Hon. David S. Young

Honorary Benchers

Her Majesty Queen Elizabeth, The Queen Mother

The Right Honourable Margaret Thatcher

The Honourable Lincoln M. Alexander, Q.C.

His Royal Highness Prince Charles, Prince of Wales

Kenneth P. Jarvis, Q.C., RCA



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PRESIDENT OF

LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Michelle Strom
416-598-5802

ANNUAL GENERAL MEETING, 2001

WEDNESDAY, MAY 9, 2001

OSGOODE HALL, TORONTO

ORDER OF BUSINESS

Minutes of the previous annual general meeting

Report of the work of the Society and the committees of the Society and Convocation

Presentation of the audited financial statements

Matters of professional interest that are directly related to the work of the Society

Motions (no motions were submitted by members of the profession)



NOTES

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